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INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

Report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its fifth session

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* E/C.10/1987/1 and Add.1.

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I. MATTERS CALLING FOR ACTION BY THE COMMISSION ON TRANSNATIONAL CORPORATIONS

A. Draft decision

1. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting recommends to the Commission on Transnational Corporations the adoption of the following draft decision:

Report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its fifth session and provisional agenda and documentation for the sixth session of the Group

The Commission on Transnational Corporations decides:

(a) To approve the report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its fifth session and to commend the Group for its work;

(b) To approve the provisional agenda and documentation for the sixth session of the Group set out below.

PROVISIONAL AGENDA AND DOCUMENTATION FOR THE SIXTH SESSION OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

1. Opening of the session.

2. Election of officers.

3. Adoption of the agenda and other organizational matters.

4. Programme of work of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting:

   (a) Review of important current developments in the field of accounting and reporting by transnational corporations, on the basis of documentation requested by the Group:

      (i) With respect to the needs of users:

         a. Home and host countries, especially developing countries;

         b. Other users;

      (ii) With respect to accounting and reporting:

a. Individual Member States;

b. Intergovernmental organizations:

i. Regional;

ii. International;

c. Non-governmental organizations:

i. National;

ii. Regional;

iii. International;

Documentation

Report of the Secretary-General (international survey, based on equitable geographical representation, of financial statements published by selected transnational corporations)

(b) Discussion of issues of accounting and reporting identified during the fifth session:

(i) Issues related to the various technical aspects of the standard-setting process itself, for financial accounting and reporting and for non-financial reporting;

(ii) Issues related to information to be provided in financial statements:

a. Consolidation procedures;

b. Segmentation of aggregate data;

c. Information disclosure requirements concerning the annual report of the board of directors;

d. Objectives of financial reporting;

e. Concepts underlying financial reporting;

(iii) Issues related to information to be provided, other than in financial statements, of a financial nature and of a non-financial nature;

Documentation

Reports of the Secretary-General

(c) Identification of issues of accounting and reporting for discussion on a priority basis during future sessions:

(i) Issues related to information to be provided in financial statements;

(ii) Issues related to information to be provided other than in financial statements:

a. Of a financial nature;

b. Of a non-financial nature;

(d) Further steps to be taken in relation to the development of the comprehensive information system;

Documentation

Report of the Secretary-General

(e) Accounting and reporting issues arising out of the future code of conduct on transnational corporations;

(f) Appropriate measures to give effect to the work of the Group;

Documentation

Report of the Secretary-General

(g) Ways and means of improving education, research and practical training in the field of accounting and reporting in Member States.

5. Consideration of the future work of the Group (Economic and Social Council resolution 1982/67)

In dealing with this item, the Group should bear in mind paragraph 4 (h) of Economic and Social Council resolution 1982/67, pursuant to which the Commission on Transnational Corporations shall, at its fourteenth session, review the mandate, terms of reference and achievements of the Group, with a view to deciding on the advisability of its continuation.

6. Adoption of the report of the Group on its sixth session.

B. Views and recommendations of the Group to be submitted to the Special Commission of the Economic and Social Council on the In-depth Study of the United Nations Intergovernmental Structure and Functions in the Economic and Social Fields

2. The attention of the Commission on Transnational Corporations is drawn to the views and recommendations of the Group to be submitted to the Special Commission of the Economic and Social Council on the In-depth Study of the United Nations Intergovernmental Structure and Functions in the Economic and Social Fields, in accordance with Council decision 1987/112 (see paras. 48-58 below). The Commission may wish to take appropriate action in this regard.

II. PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

A. Review of important current developments in the field of accounting and reporting by transnational corporations, on the basis of documentation requested by the Group

3. At its 2nd meeting, on 3 March 1987, the Group reviewed important current developments in the field of accounting and reporting by transnational corporations on the basis of the report of the Secretary-General (E/C.10/AC.3/1987/2).

4. In opening the discussion, the Chairman said that progress towards the development of accounting at the national, regional and international levels had gathered further momentum.

5. Attention was drawn by some delegations to the growing interdependence among countries and between the various sectors of the world economy, particularly in the interrelated areas of money, finance, trade, external debt and development. They stressed the importance of international economic co-operation in promoting business transactions across national boundaries. The results of such transactions should be properly accounted for and reflected in the financial statements of business enterprises. They noted with satisfaction that attention was being given to the development of the accounting profession in developing countries by such organizations as the Asian Development Bank, the Arab Society of Certified Accountants and the Association of Accountancy Bodies of West Africa.

6. The Group noted the efforts made in developing regulatory frameworks for corporate accounting and reporting. Such efforts had continued to involve both Governments and non-governmental organizations. It was observed that a variety of accounting and reporting issues had been subject to standard setting. The result had been the promulgation of standards dealing with, for example, consolidation of accounts, revenue recognition, inventory valuation, pension costs and obligations, accounting for fixed assets and disclosure of accounting policies. Given that standard setting continued to involve various organizations working independently towards the common objective of improving financial statements as a medium of communication, it was perceived that there was a need for multilateral consultations to define the scope for international harmonization.

7. The Group agreed that harmonization of accounting and reporting standards 1/ should aim at improving the comparability of financial statements. An important step in defining the scope for harmonization was the comparison of standards to identify similarities and differences. The view was expressed that the comparison process could be facilitated if each standard comprised comparable elements, such as the objective(s), the concept(s), the scope of coverage, definitions of terms, criteria of applicability, bases of measurement, the accounting method(s), information disclosure and explanatory notes. However, it was pointed out that all those elements were not necessarily to be found in each standard. The Group agreed that accounting standards should comprise, where appropriate, comparable elements.

8. The Group approved the proposal that the United Nations Centre on Transnational Corporations be requested to conduct an international survey, based on equitable geographical representation, of financial statements published by transnational corporations. The international survey would be conducted with the aim of preparing a factual report on information disclosures by selected transnational corporations in their financial statements and would cover financial statements for 1985 and 1986. Some 200 transnational corporations would be selected from 20 countries in different regions of the world and from different economic sectors. The survey should demonstrate, on the basis of information disclosed by selected transnational corporations, the availability and comparability of information concerning transnational corporations and their activities. The information items recommended by the Group for disclosure would be used to develop a check-list of items to be surveyed. The Group fully realized the difficulties of such a survey but was confident that the Centre would produce a survey that would provide a balanced view of financial disclosure by transnational corporations from various regions, based on selected agreed items in previous reports of the Group and its predecessor, the Ad Hoc Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting.

B. Discussion of issues of accounting and reporting identified during the fourth session: information to be provided in financial statements

1. Accounting and reporting for business combinations

9. The Group considered issues of accounting and reporting for business combinations at its 3rd meeting, on 4 March. It had before it the report of the Secretary-General (E/C.10/AC.3/1987/3).

10. The Group noted that the term "business combination" was not universally understood. It agreed that, for the purpose of its report, the term "business combination" would denote a linkage by way of equity interest between two or more enterprises. That linkage, which might be effected in various ways, would allow the two or more enterprises to act as a single economic entity.

1/ The word "standards" in the present report includes both legislative and non-legislative pronouncements.

11. With regard to a business combination deemed to be an acquisition, it was perceived that there was a need to harmonize current accounting practices in the light of the following:

(a) Various bases were used to determine the cost of acquisition;

(b) Different bases were used to allocate the cost of acquisition to assets and liabilities;

(c) There were various methods of accounting for goodwill arising on acquisition;

(d) There were various methods of accounting for discount on acquisition;

(e) There were variations in accounting for minority interest and for taxes on income.

12. It was recommended that the purchase method be used to account for a business combination deemed to be an acquisition. That method adhered to traditional principles of accounting for the acquisition of assets. In using that method of accounting for a business combination effected by issuing stock, the acquiring company would account for the economic substance of the transaction by applying those principles and by recording the following:

"(a) All assets and liabilities that comprised the bargained cost of an acquired company, not merely those items previously shown in the financial statements of the acquired company;

"(b) The bargained costs of assets acquired less liabilities assumed, not the costs to the previous owner;

"(c) The fair value of the consideration received for stock issued, not the equity shown in the financial statements of the acquired company;

"(d) Retained earnings from its operations, not a fusion of its retained earnings and previous earnings of the acquired company;

"(e) Expenses and net income after an acquisition computed on the bargained costs of acquired assets less assumed liabilities, not on the costs to the previous owner." 2/

13. The Group noted that the pooling of interests method was not recognized or commonly used in a number of countries. The pooling of interests methods might be used to account for a business combination if the following conditions were met:

2/ Business Combinations, APB Opinion No. 16 (New York, American Institute of Certified Public Accountants, Inc., August 1970), para. 21.

(a) The shareholders of the combining enterprises achieved a continuing mutual share in the risks and benefits attaching to the combined enterprise;

(b) The basis of the transaction was principally an exchange of common voting shares of the enterprises involved;

(c) The whole, or effectively the whole, of the net assets and operations of the combining enterprises were combined in one entity.

14. A few delegations argued in favour of using the new entity method in accounting for business combinations in which the ownership interests of two or more companies were joined together through an exchange of voting shares. Under the new entity method, the assets and liabilities brought into the combination were accounted for in the new entity's financial statements at fair value, which represented cost to the new entity.

15. The Group took note of the following items for disclosure by the individual member enterprise or the enterprise as a whole in its published financial statements:

(a) For a business combination deemed to be an acquisition:

(i) Name(s) and a brief description of the acquired enterprise(s);

(ii) Effective date of the acquisition for accounting purposes;

(iii) Name of the country where the acquisition took place;

(iv) Method used in accounting for the business combination;

(v) Percentage of voting shares acquired;

(vi) Cost of acquisition and amount of consideration given, at fair value, by way of the following:

a. Cash and other monetary assets;

b. Non-monetary assets;

c. Securities issued;

d. Liabilities undertaken;

(vii) Description and amount of any contingent consideration;

(viii) Net identifiable assets acquired:

a. Total assets, including intangible assets other than goodwill, at the amount assigned thereto;

b. Total liabilities at the amount assigned thereto;

c. Amount of minority interest in such net assets;

(ix) The amount of any difference between the cost of acquisition and the aggregate fair value of net identifiable assets acquired, and the treatment thereof, including the period of amortization of any goodwill arising on acquisition;

(b) Where the pooling of interests method was used:

(i) Name and a brief description of each of the combining enterprises;

(ii) Effective date of the pooling of interests for accounting purposes;

(iii) Name of the country where the pooling of interests took place;

(iv) Method used in accounting for the business combination;

(v) Percentage of each enterprise's voting shares exchanged to effect the combination;

(vi) Description, number and fair value of the combined enterprise's voting shares held by the shareholders of each of the combining enterprises immediately after the combination; description and fair value for each type of other consideration received by the shareholders of each of the combining enterprises;

(vii) Net assets brought into the combination by each of the combining enterprises:

a. Total assets at book value;

b. Total liabilities at book value;

c. Amount of minority interest at book value;

(viii) The revenue, extraordinary items and net income (after adjusting for intercompany transactions) of each of the combining companies and the minority interest in the net income from commencement of the financial year of the combined company to the date at which the combination was consummated;

(ix) Details of an increase or decrease in retained earnings from changing the fiscal year of a combining company. The details should include at least revenue, expenses, extraordinary items, net income and other changes in stockholders' equity for the period excluded from the reported results of operations;

(x) The nature and amount of significant accounting adjustments by the combining enterprises to achieve consistency of accounting policies.

16. Some delegations expressed the view that the concept of business combination and the related distinction between acquisitions and pooling of interests was a valid one only in certain jurisdictions. As the legal situation in their countries was different, they could not accept the recommendations and views expressed in paragraphs 11 to 15 above.

17. Some delegations expressed the view that accounting and reporting for business combinations should be discussed again at a future session, together with the question of consolidation procedures.

2. Revenue recognition

3. Accounting for non-operating gains and losses

18. At its 4th meeting on 4 March, the Group considered the question of revenue recognition and issues related to accounting for non-operating or extraordinary/unusual gains and losses. 3/ It had before it the report of the Secretary-General (E/C.10/AC.3/1987/4).

19. It was pointed out that, in some countries, the term "income" was used instead of "revenue". The Group discussed recognition of revenue arising during the course of the ordinary activities of a business enterprise from the sale of goods, the rendering of services and the use by others of enterprise resources yielding interest, royalties and dividends. The Group recognized that revenue was an important component in the calculation of earnings as reflected in the formula: Revenue - Expenses + Gains - Losses = Earnings. It realized that the recognition of revenue on a consistent and appropriate basis was fundamental to the preparation of the income statement.

20. It was pointed out that there could be uncertainties affecting recognition of revenue, as in the following cases:

(a) The consideration receivable was not determinable within reasonable limits;

(b) Costs to be incurred in producing or purchasing goods or services could not be reasonably determined;

(c) The collectibility of the receivable resulting from a sale transaction was uncertain;

(d) There was uncertainty regarding the amounts of returnable goods.

3/ In some countries, such gains and losses are referred to as "extraordinary income and charges".

21. The Group was of the opinion that revenue should be earned as well as realized, or clearly capable of realization, before it was recognized. Revenue was considered to have been earned when the requirements concerning performance were satisfied and collection of the invoice amount was reasonably assured. Revenue was realized when goods or services were exchanged for cash or claims to cash.

22. With regard to accounting for non-operating or extraordinary/unusual gains and losses, the Group accepted the "all-inclusive" concept of profit for the following reasons:

(a) Inclusion and separate disclosure of non-operating or extraordinary/unusual items would permit the profit and loss account for the year to give a comprehensive view of a company's profitability;

(b) By segregating non-operating or extraordinary/unusual items for separate disclosure, the current operating profit could be shown as an element of the all-inclusive profit for the financial year;

(c) Exclusion, being a matter of subjective judgement, could lead to variations and to a loss of comparability between the reported results of companies;

(d) Exclusion could result in non-operating or extraordinary/unusual items being overlooked in any consideration of results over a series of years.

23. With regard to information disclosure, the Group agreed that financial statements should include the following items:

(a) Revenue derived from the sale of goods and/or the rendering of services, as well as from the use by others of enterprise resources yielding interest, royalties and dividends;

(b) Accounting policies describing the method(s) used in recognizing revenue;

(c) Non-operating or extraordinary/unusual gains and losses. The nature and amount of each item, if material, should be disclosed in the notes to the financial statements.

24. Some delegations were of the view that the circumstances that prevented revenue recognition in the current accounting period should be disclosed.

4. Valuation of inventories

25. The Group discussed the valuation of inventories at its 5th meeting, on 5 March. It had before it the report of the Secretary-General (E/C.10/AC.3/1987/5 and Corr.1).

26. The Group recognized that inventories represented an important asset. It agreed that, for the purpose of its report, the term "inventory" would denote the aggregate of items of tangible property held (a) for sale in the ordinary course of

business, (b) in the process of production for such sale, or (c) for consumption in the production of goods or services for sale, including maintenance supplies and consumables.

27. The Group noted that different practices existed as regards the composition of inventory cost, the methods of costing inventory and the bases of inventory measurement. Thus, there could be a need for harmonization in those instances where the application of different practices would limit the comparability of the financial statements.

28. There was consensus that inventory cost should normally comprise the applicable expenditures and charges directly and indirectly incurred in bringing an inventory item to its existing condition and location. It was pointed out that in some countries it was an accepted practice to include only direct expenditure and charges in inventory cost.

29. Noting that various accounting methods existed and that they were based on different assumptions about inventory movements and cost flow, the Group stressed that in selecting a method the major objective should be to choose the one that, under the circumstances, most clearly reflected the economic reality of the situation. The overriding consideration must be that the method selected permitted a true and fair view of the results of operations and the financial position of the enterprise. The method adopted should be consistently applied from period to period and adequately disclosed in the financial statements.

30. Current accounting practices indicated that historical cost was commonly used in inventory valuation. The Group recognized that the historical cost of inventories might not be realizable for a variety of reasons, and therefore noted that, for inventory valuation, the rule of cost or market value, whichever was lower, should be applied. The question whether other valuation bases such as current cost should be used in time of rising prices was deferred for consideration at a later date.

31. With regard to information disclosure concerning inventories, the Group reached agreement on the following formulations:

(a) Inventories should be disclosed in the balance sheet. Where inventories were a material item, an appropriate breakdown - such as raw materials, work-in-process, finished goods, goods in transit, spare parts and supplies, and long-term contracts in progress - should be provided, and the amount for each category shown. It was recognized, however, that where special circumstances would entail undue expense, inventories could be combined in the consolidated accounts;

(b) Information should be disclosed in respect of (i) the accounting policies adopted for the purpose of inventory valuation, (ii) change in inventory valuation policy that had a material effect in the current period or might have a material effect in subsequent periods, and (iii) the effect of the change in inventory valuation policy;

(c) Where the book value of inventories determined on the basis of the weighted average price, first-in, first-out (FIFO), last-in, first-out (LIFO), or other similar methods differs materially from the market value at the balance-sheet date, the amount of the difference should be disclosed in the notes to the accounts;

(d) The amount of inventories pledged as collateral for repayment of loans should be disclosed;

(e) The amount of any exceptional value adjustment(s) should be disclosed.

32. The Group also agreed that the income statement of the period should be charged with the amount of inventories sold or used (unless allocated to other asset accounts) and with the amount of any writedown to net realizable value.

C. Identification of issues of accounting and reporting for discussion on a priority basis during future sessions

33. At its 12th meeting on 11 March, the Group identified issues of accounting and reporting for discussions at its sixth session and adopted a draft decision on the subject (see sect. I above).

D. Further steps to be taken in relation to the development of the comprehensive information system

34. At its 8th and 10th meetings, on 9 and 11 March, the Group discussed further steps to be taken in relation to the development of the comprehensive information system. The Group had before it the report of the Secretary-General on numerical data on the largest transnational corporations (E/C.10/AC.3/1987/6 and Corr.1).

35. The Assistant Director of the Advisory and Information Services Division of the United Nations Centre on Transnational Corporations made an introductory statement, in which he informed the Group that the Centre collected and processed information on a number of components of the comprehensive information system, with special attention to information on individual transnational corporations. The information was used to serve the Centre's research and advisory and information services programmes and to provide responses to requests received from a variety of users, particularly Governments of developing countries. He said that the Centre had encountered certain problems in collecting numerical data on the largest transnational corporations, which were discussed in the report.

36. Several delegations pointed out inconsistencies in the tables in the report: there was an error in addition in table 2 and, in tables 3 and 4, which showed the availability of numerical data on the largest transnational corporations during several years, the population of transnational corporations on which data had been collected had changed and that the figures in the tables were therefore not comparable. A few delegations said that disclosure by transnational corporations had increased in recent years but that the findings of the report indicated a contrary trend. They pointed out that the general thrust of the report could be misleading. Other delegations said that the report highlighted the linkage between the work of the Group and the statistical data available. Some delegations

inquired about the extent to which requests for information received by the Centre could be answered from the data provided in the reports of transnational corporations. A few delegations suggested that the report should be withdrawn.

37. The Assistant Director of the Advisory and Information Services Division, responded to several points that had been raised. The Group agreed that a corrigendum to the report should be prepared, taking into account the reservations expressed, and that the discussion would continue at a later meeting.

38. The Group had before it, at its 10th meeting, the corrigendum to the report. Some delegations expressed satisfaction with the corrigendum. They considered it responded to the views expressed. Other delegations stated that they could not retract their objections concerning the thrust of the report. A few delegations maintained that the report should be withdrawn. The Group agreed that the report should be retained but that it should be noted that it had been criticized.

E. Accounting and reporting issues arising out of the future code of conduct on transnational corporations

39. The Group decided to defer consideration of accounting and reporting issues arising out of the future code of conduct on transnational corporations pending the outcome of the negotiations on the draft code.

F. Appropriate measures to give effect to the work of the Group

40. At its 6th, 7th, 10th, 11th and 12th meetings, on 6 and 11 March, the Group considered the question of appropriate measures to give effect to the work of the Group on the basis of the report of the Secretary-General (E/C.10/AC.3/1987/7).

41. The Group was of the view that the report of the Secretary-General was useful and provided a good basis for discussion. Several delegations expressed strong objections to the inclusion of paragraphs 5 to 15, since those paragraphs had not been agreed upon by the Group.

42. Several additional items were proposed for inclusion in a future report on the subject.

43. It was also proposed that if those items were included, the texts of the previous reports of the Group and its predecessor (the Ad Hoc Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting) should also be included, so as to show the context in which they had been agreed upon.

44. The Group agreed that the reports on all its sessions, including the forthcoming session, and the report of its predecessor (the Ad Hoc Working Group) should be combined and made available as a United Nations sales publication.

45. Owing to constraints of time, and in view of the importance of the issue, the Group agreed to consider the issue again at its sixth session, when a final decision on the form of the publication could be taken.

46. The Group agreed to request the United Nations Centre on Transnational Corporations to prepare a short report on the nature of further appropriate measures to be taken to give effect to its work.

G. Ways and means of improving education, research and practical training in the field of accounting and reporting in Member States

47. Owing to constraints of time, the Group decided to defer consideration of ways and means of improving education, research and practical training in the field of accounting and reporting in Member States to a future session.

H. Review of the functioning of the Group

48. Pursuant to paragraph (i) of Economic and Social Council decision 1987/112 on the in-depth study of the United Nations intergovernmental structure and functions in the economic and social fields, the Group conducted a review of its functioning, following the guidelines provided in recommendation 8 of the Group of High-level Intergovernmental Experts to Review the Efficiency of the Administrative and Financial Functioning of the United Nations. 4/

49. The Group pointed out that it had been established by the Council in its resolution 1982/67. Under its mandate, the Group met annually and reported to the Commission on Transnational Corporations on further steps to be taken in pursuit of the long-term objective of international harmonization of accounting and reporting within the scope of the work of the Commission.

50. The Group reached a number of conclusions with regard to paragraphs 3 (a), (b) and (c) of recommendation 8 of the Group of High-level Intergovernmental Experts. Paragraphs 3 (d), (e) and (f) were not considered applicable.

Paragraph 3 (a)

51. The Intergovernmental Working Group was the only intergovernmental body working in the field of accounting and reporting, and its membership was open to States Members and States not Members of the United Nations. The Group was of the view that its structure and composition should remain unchanged. It would continue to carry out its mandate within the scope of work of the Commission on Transnational Corporations on the understanding that duplication of work should be avoided. The Group did not perceive any overlapping of activities nor the need to merge with another body.

4/ Official Records of the General Assembly, Forty-first Session, Supplement No. 49 (A/41/49), para. 24.

Paragraph 3 (b)

52. By paragraph 4 (h) of its resolution 1982/67, the Economic and Social Council had stipulated that the Commission on Transnational Corporations should review the mandate, terms of reference and achievements of the Group after three years with a view to deciding on the advisability of its continuation. The Group had discussed the matter at its third session, in 1985, and was of the view that it should continue its work, since it was the only intergovernmental body working in the field of accounting and reporting in which both developing and developed countries were represented. The Commission had shared that view and recommended that the Council should decide that the Group should continue its work under the same mandate and terms of reference. The Council, by its resolution 1985/71, decided that the Group should continue to meet on the basis of its existing mandate.

Paragraph 3 (c)

53. Accounting and reporting were issues of a technical nature and were continuously evolving. The Group, by its mandate, was requested to take into account other relevant activities in the field and consult the appropriate international bodies on matters pertaining to the development of international standards of accounting and reporting. The Group, on several occasions, had elicited views of other interested bodies on specific issues and was able to reach consensus on many of them, as clearly demonstrated in its reports. Several international bodies working in the field of accounting and reporting participated actively in the deliberations of the Group.

54. At each of its sessions, including the current one, the Group had agreed on a number of information items for disclosure by transnational corporations. 5/ The Group had also identified further items to be discussed in the future, including questions of scope, objectives, concepts, criteria, bases, methods and definitions.

55. The Group was requested to express its views on some issues of importance to other bodies of the United Nations. It had done so.

56. The Group considered that it had the experience and expertise to deal with matters of accounting and reporting. It had reached a consensus on several issues that could serve as a basis for bridging the information gap between transnational corporations and users of information.

57. It was common knowledge that many countries, especially developing countries, had not established standard-setting bodies, and that some had done so with limited resources. The results achieved were in many cases of limited value. The question was what could be done in the most efficient and economical way to help all

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5/ See the reports of the Group on its first to fourth sessions (E/C.10/1983/8, E/C.10/1984/9, E/C.10/1985/12 and Corr.1, E/C.10/1986/14) and the present report.

countries achieve the goals of standardization and harmonization of standards that would affect the availability and comparability of information. The work of the Group could help many countries, especially developing countries, in formulating their own or common accounting standards, which in itself was a long-term process.

* * *

58. For all the above-mentioned reasons, the Group was of the view that no essential change in its mandate or terms of reference was needed. It noted that the periodic examination of its mandate, terms of reference and achievements would be conducted at its sixth session, in 1988. At that time, the Group intended to give the matter thorough consideration once again.

III. ADOPTION OF THE REPORT OF THE GROUP ON ITS FIFTH SESSION

59. At its 13th meeting, on 13 March, the Group adopted the draft report on its fifth session (E/C.10/AC.3/1987/L.1 and Add.1-9), as amended during the discussion.

IV. ORGANIZATION OF THE SESSION

A. Opening and duration of the session

60. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting held its fifth session at United Nations Headquarters from 2 to 13 March 1987. The Group held 13 meetings (1st to 13th meetings) and a number of informal meetings.

61. The session was opened by the Chairman of the fourth session.

62. At the 1st meeting, on 2 March, the Executive Director of the United Nations Centre on Transnational Corporations made a statement. He reviewed the economic environment in which accounting and reporting developments continued to take place. He was of the view that the Group should be encouraged and supported in its efforts to achieve further progress towards international harmonization of accounting and reporting. He said that some countries were members of other international organizations involved in promoting international harmonization of accounting and reporting. The efforts of those organizations were commendable and had produced tangible results, such as the Council Directives of the European Communities and the information disclosure section of the Guidelines for Multinational Enterprises of the Organisation for Economic Co-operation and Development. In addition, there were standards promulgated by the International Accounting Standards Committee and guidelines issued by the International Federation of Accountants. However, it should be realized that the Group differed from those organizations in one important respect, namely, it provided for governmental input from a greater number of countries, especially the developing countries.

63. The Chairman of the fifth session said that the Group was mandated to pursue the long-term objective of international harmonization of accounting and reporting. He suggested that, when defining the scope for harmonization of accounting and reporting standards, it was pertinent to examine the definitions of accounting terms and the concepts embodied in accounting principles. It was also appropriate to review the bases of measurement and the methods of accounting. Furthermore, it was important to identify items of information for disclosure.

B. Membership and attendance

64. In accordance with Economic and Social Council resolution 1982/67, the Group is composed of 34 members, elected on the principle of equitable geographical distribution. Two members from African States, one member from Asian States, three members from Eastern European States and two members from Latin American States remain to be elected.

65. The following States members of the Group were represented: Barbados, Brazil, Canada, China, Cyprus, Egypt, France, Germany, Federal Republic of, India, Italy, Japan, Malawi, Netherlands, Nigeria, Norway, Panama, Spain, Swaziland, Switzerland, Uganda, United Kingdom of Great Britain and Northern Ireland, Uruguay, Zaire.

66. The following States Members of the United Nations were represented by observers: Cameroon, Morocco.

67. The following intergovernmental organizations were represented by observers: European Economic Community, Organisation for Economic Co-operation and Development.

68. The following non-governmental organizations in consultative status, category I, with the Economic and Social Council were represented by observers: International Chamber of Commerce, International Confederation of Free Trade Unions.

69. The International Accounting Standards Committee and the International Federation of Accountants were represented by observers.

C. Election of officers

70. At its 1st and 2nd meetings, on 2 and 3 March, the Group elected by acclamation the following officers:

Chairman: Mohamed Adel El-Safty (Egypt)

Vice-Chairmen: Asta Tjølsen (Norway)
Tomás Garrido (Uruguay)

Rapporteur: Theophilos Theophilou (Cyprus)

D. Agenda

71. At its 1st meeting, on 2 March, the Group adopted the following provisional agenda as contained in document E/C.10/AC.3/1987/1 and Add.1.

1. Opening of the session.

2. Election of officers.

3. Adoption of the agenda and other organizational matters.

4. Programme of work of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting.

5. Provisional agenda for the sixth session of the Group.

6. Adoption of the report of the Group on its fifth session.

Annex

LIST OF DOCUMENTS BEFORE THE GROUP AT ITS FIFTH SESSION

Document number	Agenda item	Title or description
E/C.10/AC.3/1987/1 and Add.1	3	Provisional annotated agenda
E/C.10/AC.3/1987/2	4	Review of important current developments in the field of accounting and reporting by transnational corporations: report of the Secretary-General
E/C.10/AC.3/1987/3	4	Accounting and reporting for business combinations: report of the Secretary-General
E/C.10/AC.3/1987/4	4	Revenue recognition and accounting for non-operating gains and losses: report of the Secretary-General
E/C.10/AC.3/1987/5 and Corr.1	4	Valuation of inventories: report of the Secretary-General
E/C.10/AC.3/1987/6 and Corr.1	4	Numerical data on the largest transnational corporations: report of the Secretary-General
E/C.10/AC.3/1987/7	4	Appropriate measures to give effect to the work of the Group: report of the Secretary-General
E/C.10/AC.3/1987/INF.1	-	List of delegations
E/C.10/AC.3/1987/L.1 and Add.1-9	6	Draft report of the Group on its fifth session

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